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BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

54790

U.S.-CHINA AIR SERVICES

:
: Docket OST-99-5539-4/
:

**MOTION FOR LEAVE TO FILE
OTHERWISE UNAUTHORIZED DOCUMENT:
CONSOLIDATED COMMENTS OF STATE OF ALASKA
ON BEHALF OF
ANCHORAGE INTERNATIONAL AIRPORT
AND
FAIRBANKS INTERNATIONAL AIRPORT**

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Dated: May 5, 1999

**BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

U.S.-CHINA AIR SERVICES : Docket OST-99-5539

_____: May 5, 1999

**MOTION FOR LEAVE TO FILE
OTHERWISE UNAUTHORIZED DOCUMENT:
CONSOLIDATED COMMENTS OF STATE OF ALASKA
ON BEHALF OF
ANCHORAGE INTERNATIONAL AIRPORT
AND
FAIRBANKS INTERNATIONAL AIRPORT**

The State of Alaska, on behalf of Anchorage International Airport and Fairbanks International Airport (“State of Alaska”) moves for leave to file its accompanying comments in the above Docket.

The State of Alaska has for years actively pursued authorities for domestic and international air carrier operations via points in Alaska. See, generally, Dockets OST-96-1600 and OST-99-5035. A representative of the State of Alaska was a member of the U.S. delegation to the January 1999 bilateral negotiations between the U.S. and the Russian Federation. More directly relevant to this docket, the State of Alaska sent two representatives to Beijing in February, 1999, as part of the U.S. delegation to the bilateral talks that ultimately resulted in the April 8, 1999, Protocol amending the U.S.-China Air Transportation Services Agreement.

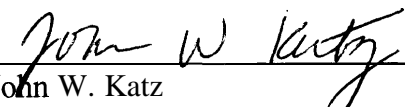
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OTHERWISE UNAUTHORIZED DOCUMENT**

2

Despite this prominent participation in the discussions out of which the Notice in this docket arose, because it is not an air carrier eligible to apply for the newly available frequencies, the State of Alaska was not included in the service list for that Notice. Upon becoming aware of this docket, the State of Alaska quickly realized that it would be neither prudent nor helpful to the U.S. Department of Transportation to submit a hasty comment without time to understand the applications under consideration. Instead, the State of Alaska has taken but a few business days to digest the applications and the various responsive filings, and to prepare the accompanying comments.

The State of Alaska respectfully requests that its accompanying Consolidated Comments be included in the record under Docket OST-99-5539, and be considered by the Office of the Secretary in awarding the frequencies at issue.

Respectfully submitted,



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May 5, 1999

**BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

DEPT. OF TRANSPORTATION
COMMENTS

May -6 PM 12:48

U.S.-CHINA AIR SERVICES

Docket OST-99-5539

**CONSOLIDATED COMMENTS OF STATE OF ALASKA
ON BEHALF OF
ANCHORAGE INTERNATIONAL AIRPORT
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FAIRBANKS INTERNATIONAL AIRPORT**

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May 5, 1999

**BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

U.S.-CHINA AIR SERVICES : Docket OST-99-5539

: May 5, 1999

**CONSOLIDATED COMMENTS OF STATE OF ALASKA
ON BEHALF OF
ANCHORAGE INTERNATIONAL AIRPORT
AND
FAIRBANKS INTERNATIONAL AIRPORT**

The State of Alaska, on behalf of Anchorage International Airport and Fairbanks International Airport, urges the U.S. Department of Transportation to grant cargo the highest priority in awarding the new air service frequencies between the United States and the People's Republic of China. As indicated in the letter from Alaska Governor Tony Knowles to Secretary Slater, a copy of which is attached as an Exhibit to these Comments, this is a matter of great importance to the State of Alaska.

Federal Express Corporation, Northwest Airlines, Inc. and United Air Lines, Inc. each responded to the Department's April 14, 1999, invitation to domestic air carriers to apply for a total of 17 new frequencies to China permitted in 1999 and 2000 under the April 8, 1999, U.S.-China Protocol. Federal Express requests only cargo service frequencies, which would typically feature a stop at Federal Express' Anchorage cargo hub. Northwest Airlines proposes that a portion of its requested frequencies be used for China cargo service, also via Anchorage.

Both Federal Express and Northwest use the Anchorage gateway to offer greater efficiency and to serve more customer markets, both across the United States, and internationally. Air cargo operations via an Alaska hub more efficiently reach more U. S. and foreign industry customers involved in international trade more quickly and more economically than would be possible using any other U.S. hub. Approval of those applications that propose air cargo transit and transfer service via Anchorage International Airport or Fairbanks International Airport would provide major benefits to the National Air Transportation System and the U.S. economy. Therefore, the State of Alaska, on behalf of Anchorage International Airport and Fairbanks International Airport, strongly supports the applications for cargo frequencies by Federal Express and Northwest.

**A. ADDITIONAL U.S.-CHINA AIR CARGO FREQUENCIES WOULD
BENEFIT THE NATIONAL AIR TRANSPORTATION SYSTEM AND THE
UNITED STATES ECONOMY BECAUSE CARGO MEANS TRADE AND
TRADE MEANS CARGO.**

Time-sensitive air cargo trade with China has a stronger potential growth rate than passenger traffic in the near future. U.S.-Asian passenger traffic is growing at a slower rate than time sensitive goods, especially as the Asian economy continues to rebound. The most prominent forecasts, by the FAA and the Boeing Corporation, agree: air cargo revenue ton miles are projected to rise at a faster rate than revenue passenger miles. Boeing and the FAA forecast annual growth rates for international passenger demand at 4.9 percent and 5.8 percent, respectively. Boeing forecasts worldwide cargo demand to

grow at a 6.4 percent annual rate and the FAA predicts a 6.7 percent annual rate.¹ When averaged together, the FAA and Boeing projections indicate that worldwide cargo growth is expected to be approximately 22 percent greater than passenger growth. Similarly, but more to the point, in the Asia-North America market, Boeing forecasts that passenger growth will average 5.7 percent annually, while air cargo projections are pegged at 6.9 percent annually. Thus, demand for air cargo service in the Asia-North America market is expected to grow 21 percent faster than demand for additional passenger service. Direct passenger service capacity is not, therefore, as likely to become a critical limiting factor in the Asian economic rebound over the next two years as is direct cargo service capacity.

U.S.-Asian trade in goods, whether components or finished products, is projected by the World Bank and others to continue to grow at rapid, if not double-digit, rates in the foreseeable future. China is one of the world's leading producers and assemblers of industrial and consumer products. Equally important, China's per capita income growth will make China an ever more important consumer market, hence a market for U.S.-produced goods. Because it will become economically feasible for Chinese consumers to buy imported U.S. goods long before they can afford more expensive foreign travel, China's rising per capita income can be expected to continue push cargo trade ahead of

¹ The information in this paragraph is gleaned, in part, from the following sources: USDOT, FAA, Office of Aviation Policy and Plans, FAA Aerospace Forecasts Fiscal Years 1999-2010, I-14, III-40 (FAA-APO-99-1, March 1999); The Boeing Commercial Airplane Group, 1998/1999 World Air Cargo Forecast, 3 (October 1998) (for 6.5% cargo growth (excluding mail)); The Boeing Commercial Airplane Group, 1998

travel demand. To the extent China's economic reforms outpace travel liberalization, that factor may also reinforce the more rapid demand growth for air cargo capacity over passenger capacity.²

It only stands to reason that, important as U.S.-China business travel and trade delegations may be, relatively few business travelers can negotiate trade deals that result in a far greater volume of cargo shipments. The requested additional cargo frequencies are likely to stimulate direct service to China from Anchorage, which will result in a significant increase in the international trade of goods between the United States and China, to the benefit to the State of Alaska and the entire U.S. economy. Passenger aircraft belly capacity is but a fraction of the all-cargo capacity required to meet this demand. Moreover, belly cargo offers less size-flexibility, both as to package size and total shipment size. The nation would be better served by allocating more of the newly available frequencies to all-cargo service than to passenger service.

**B. ADDITIONAL CHINA CARGO FREQUENCIES USING ANCHORAGE
WILL IMPROVE THE EFFICIENCY OF THE NATIONAL AIR
TRANSPORTATION SYSTEM.**

The hub-and-spoke system is widely recognized in aviation as the most efficient means of moving products to more destinations, reliably and on time. At a midpoint between industrialized continents, Anchorage's existing hub hosts over 450 wide-body,

Current Market Outlook, 24 (June 1998)(world air travel forecast to average 4.9 percent annual growth over next 20 years).

² In this regard, it makes little sense to compare the relative number of passenger and cargo flights between the U.S. and China with those to democratic regions with mature and affluent market economies.

all-cargo landings weekly, and connects a large and growing number of U.S., Asian and European airports. Federal Express and Northwest are among the domestic carriers that trans-load and/or sort and clear express freight, mail, or heavy freight at Anchorage. The cargo frequencies requested in this docket are important steps in creating direct service from points in China to and through the Anchorage hub to multiple U.S. points. More points served more directly means better and cheaper service to shippers, and therefore to both U. S. consumers and U.S. exporters.

C. THE U.S. ECONOMIC BENEFITS FROM CARGO FLIGHTS ARE GREATER THAN THOSE FROM PASSENGER FLIGHTS.

Cargo trade is capital intensive and creates jobs for the nation as well as for the State of Alaska. The movement of cargo itself is responsible for over one-third of the Anchorage International Airport's employees--from people who refuel the planes to those who sort and load packages. Federal Express alone employs about 1,000 workers in Anchorage, the company's main U.S. gateway for trade with Asia, and the home of a \$3 8 million new expansion of its international package-sorting center.

Federal Express' wide-body jets average 70 landings each week in Anchorage, where packages and freight moving between the contiguous states and Asia are sorted, cleared through U. S. Customs, and rerouted. Granting the newly available frequencies to Federal Express will not only lead to a significant increase in capability, they will also generate revenue and jobs in the State of Alaska. In fact, businesses dependent on "just-in-time" delivery and integrated, efficient supply-chain operations have established

operations near the airport, providing significant local and system-wide economy.

Northwest, also a long-time trans-Pacific cargo carrier serving the U. S. via Anchorage with an average of over 30 flights weekly, continues to be committed to utilizing Anchorage for trans-loading activity formerly based in Tokyo.

Even though Federal Express and Northwest currently use Tokyo as their gateway to China, both carriers are positioned to respond to demand for direct service to China via their Anchorage hubs rather than relying on Tokyo or other foreign hubs. Anchorage is the only U. S. airport with geographic and infrastructure advantages capable of competing with an Asian hub, producing the cargo movement benefits discussed above for the National Air Transportation System.

Perhaps more importantly, cargo trade fuels industry. Whether domestic manufacturing jobs in the export market, or the retail and service-sector jobs created by import trade, air cargo traffic creates U.S. jobs. Moreover, cargo frequencies via an Alaska cargo hub offer efficient trade opportunities for the entire U.S. export-import marketplace, not a regional marketplace. Due to Alaska's unique geographic location, efficient air freighter routes through Anchorage connect China to points all over the United States. The industry jobs and consumer benefits derived from additional cargo frequencies will be enjoyed nationwide.

D. ADDITIONAL CARGO FREQUENCIES WILL FURTHER EXISTING U.S. DEPARTMENT OF TRANSPORTATION POLICY.

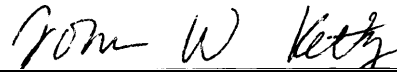
Finally, granting new cargo frequencies between the U.S. and China will help

implement the Department's policy stated in the 1996 cargo transfer flexibility ruling in Order 96- 1 1-2 (Docket OST-96-1600), and re-confirmed in Order 99-1-1 1 (Docket OST-99-5035). Support of Anchorage and Fairbanks International Airports as international air cargo hubs continues to be in the center of the United States' economic interest, as well as beneficial to Alaska.

CONCLUSION

Increased air cargo frequencies between the U.S. and China promise nationwide benefits because cargo means trade and trade means cargo, because additional cargo frequencies will improve the efficiency of the National Air Transportation System, and because additional frequencies will strengthen the domestic hubbing of international air commerce. All of these factors will work together to further stimulate job growth in the U.S. air cargo transportation sector, and the U.S. manufacturing and import-export trade sectors. Finally, additional cargo frequencies for domestic carriers into China will support the U.S. Department of Transportation's policy on international air cargo via Alaska. Accordingly, the State of Alaska strongly urges the Department, for the good of the National Air Transportation System and the United States economy, to award the cargo frequencies requested to the maximum extent possible under the April 8, 1999 Protocol.

Respectfully submitted,



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May 5, 1999

**BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

U.S.-CHINA AIR SERVICES : Docket OST-99-5539

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of May, 1999, the State of Alaska's **Motion for Leave to File Otherwise Unauthorized Document and Consolidated Comments of State of Alaska on Behalf of Anchorage International Airport and Fairbanks International Airport** were served on the persons listed below by telefax, messenger or United States mail, as indicated.

Dated: May 6, 1999


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May 5, 1999

The Honorable Rodney E. Slater
Secretary of Transportation
U.S. Department of Transportation
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Dear Mr. Secretary:

I write in support of allocating rights for U.S. carriers to increase cargo flights to China. Specifically, I urge the U.S. Department of Transportation to allocate the requested cargo frequencies to enhance the economic benefit to the nation and to the State of Alaska while fulfilling the intent of the department's 1996 and 1999 rulings.

The Clinton Administration has reached a major milestone, one I understand was not anticipated even a few weeks ago, in securing a new aviation agreement with the People's Republic of China. As China rebounds from its share of economic difficulties and U.S. industry begins again to see rapid expansion of markets with China, our country needs to make wise choices to make every action on our side count.

One of the most significant aspects of our trade relationship with China is time sensitive express freight and heavy air freight capacity. In fact, the lack of authority for U.S. air cargo to move express shipments and heavy freight may be one of the most limiting factors as U.S. industry competes for its global market share. Fortunately, through the April 8, 1999, Aviation Protocol with China, there is now available some relief to the pent up demand for cargo frequencies.

Federal Express Corporation is requesting all cargo frequencies while Northwest Airlines, Inc., is requesting a portion of its allocation to cargo. These cargo requests are competing with requests for passenger frequencies to secure favorable allocation of the 17 frequencies that the Protocol offers in the first two years. I would like to summarize why it is in the best interest of the U.S. to approve the cargo requests instead of passenger requests.

International air cargo demand is forecast to grow more rapidly than international passenger demand. Boeing and the Federal Aviation Administration (FAA) forecast

The Honorable Rodney E. Slater

May 5, 1999

Page 2

annual growth rates for international passenger demand at 4.9 percent and 5.8 percent, respectively. Boeing forecasts worldwide cargo demand to grow at a 6.4 percent annual rate and the FAA predicts a 6.7 percent annual rate. When averaged together, the FAA and Boeing projections indicate worldwide cargo growth is expected to be approximately 22 percent greater than passenger growth.

Similarly, but more to the point, in the Asia-North America market, Boeing forecasts passenger growth will average 5.7 percent annually, while air cargo projections are pegged at 6.9 percent annually. Thus, demand for air cargo service in the Asia-North America market is expected to grow 21 percent faster than demand for additional passenger service. Direct passenger service capacity to China is not, therefore, as likely to become a critical limiting factor in the Asian economic rebound over the next two years as is direct cargo service capacity.

Further, Asia, driven largely by demand in China, presents more opportunities for American flag cargo carriers than for domestic passenger carriers. This will cause cargo carriers to schedule direct flights to the most efficient hub and spoke system available for the ultimate benefit of the U.S. consumer.

Secondly, the only candidate hub capable of competing with foreign hubs is Anchorage. Let's bring the hub for air cargo trade with China back to America; because if we fail to compete, European and Asian carriers and airports will be the beneficiaries,

Thirdly, the National Air Transportation System will benefit more from allocating requested frequencies for cargo than from passenger flights. Cargo means trade, and goods can be moved by foreign flag carriers just as quickly as by U.S. carriers. We need to give our domestic carriers the authority to move time sensitive goods.

Fourthly, capturing this economic activity means substantial economic benefits to the nation as well as to Alaska. More than 1,000 jobs in Alaska were created by air cargo growth at Anchorage International Airport in the past four years. This comes at a time when Alaska is reeling from precipitous drops in the revenues from the oil activity on which the State of Alaska is heavily dependent. As predicted oil industry jobs declines continue, Alaska is struggling to diversify its economy. We are not a California or an Illinois where such an event would not mean as much as it does to our small population. One of our best prospects for sustainable economic diversification is air cargo industry growth. The 17 weekly frequencies, if allocated to cargo using Anchorage, would help balance the loss in oil industry jobs.

The Honorable Rodney E. Slater

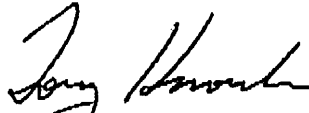
May 5, 1999

Page 3

Opening up China to more direct access by domestic cargo carriers would strengthen the hub and spoke system, envisioned by the U.S. Department of Transportation under your leadership in its Order 96-11-2 (Docket OST-96-1600) and Order 99-1-11 (Docket OST-994035). Allowing more opportunity through open skies policies leads to more trade, and in this environment U.S. industry will compete effectively for its global market share.

For these reasons, I strongly urge the department to allocate the requested cargo frequencies to benefit the nation as well as the State of Alaska, and hope you will use this allocation decision to further implement the department's 1996 and 1999 rulings. Thank you for the opportunity to comment on this important decision.

Sincerely,



Tony Knowles
Governor

cc: The Honorable Ted Stevens, United States Senator
The Honorable Frank Murkowski, United States Senator
The Honorable Don Young, United States Representative
The Honorable A. Bradley Mims, Assistant Secretary for Aviation and
International Affairs, U.S. Department of Transportation
Mr. Ed Oppler, U.S. Department of Transportation